



1953 TO 1978 — GETTING THE OIL TO MARKET At 11:13 P.M. on October 17, 1978 another milestone in the history of the Trans Mountain pipeline was reached. It marked the completion of 25 years of pumping operations as the first Alberta crude oil arrived at the Burnaby Terminal back in 1953.

Vancouver newspapers heralded the first arrival of oil with banner headlines —

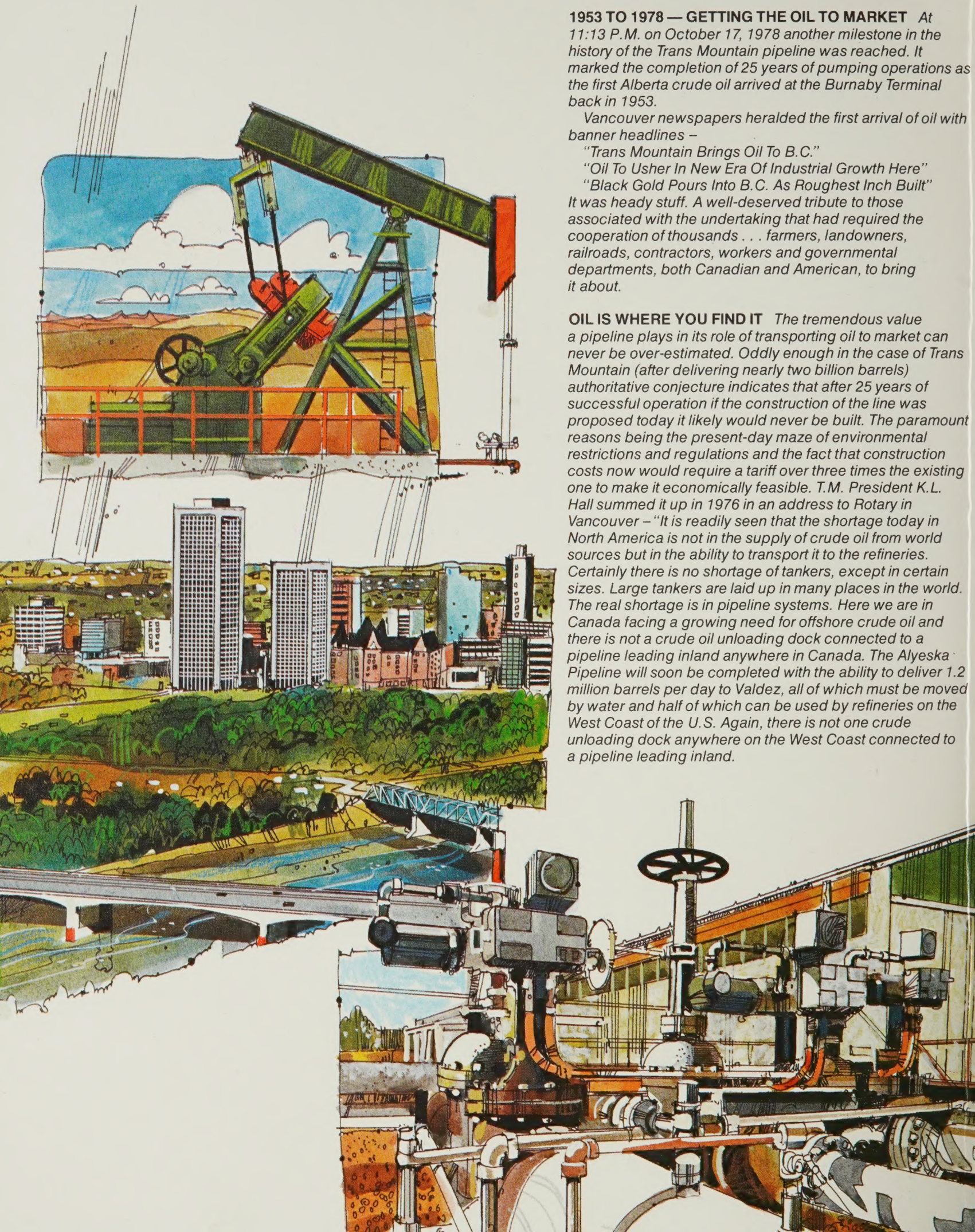
"Trans Mountain Brings Oil To B.C."

"Oil To Usher In New Era Of Industrial Growth Here"

"Black Gold Pours Into B.C. As Roughest Inch Built"

It was heady stuff. A well-deserved tribute to those associated with the undertaking that had required the cooperation of thousands . . . farmers, landowners, railroads, contractors, workers and governmental departments, both Canadian and American, to bring it about.

OIL IS WHERE YOU FIND IT The tremendous value a pipeline plays in its role of transporting oil to market can never be over-estimated. Oddly enough in the case of Trans Mountain (after delivering nearly two billion barrels) authoritative conjecture indicates that after 25 years of successful operation if the construction of the line was proposed today it likely would never be built. The paramount reasons being the present-day maze of environmental restrictions and regulations and the fact that construction costs now would require a tariff over three times the existing one to make it economically feasible. T.M. President K.L. Hall summed it up in 1976 in an address to Rotary in Vancouver — "It is readily seen that the shortage today in North America is not in the supply of crude oil from world sources but in the ability to transport it to the refineries. Certainly there is no shortage of tankers, except in certain sizes. Large tankers are laid up in many places in the world. The real shortage is in pipeline systems. Here we are in Canada facing a growing need for offshore crude oil and there is not a crude oil unloading dock connected to a pipeline leading inland anywhere in Canada. The Alyeska Pipeline will soon be completed with the ability to deliver 1.2 million barrels per day to Valdez, all of which must be moved by water and half of which can be used by refineries on the West Coast of the U.S. Again, there is not one crude unloading dock anywhere on the West Coast connected to a pipeline leading inland.



Results in Brief

	1978	1977	Increase (Decrease)
Deliveries (barrels per day)*	156,327	165,331	(5.4)%
Income	\$ 30,640,586	\$ 31,041,648	(1.3)%
Expense	20,644,900	19,544,250	5.6 %
Earnings (after income taxes)	4,930,686	5,912,398	(16.6)%
Per share	0.65	0.78	
Dividends per share	1.20	1.20	
Capital expenditures	810,639	829,729	
Fixed assets at cost	165,895,865	165,437,639	

*Including propane and jet fuel

Important transportation decisions in both Canada and the U.S. are being delayed by legal challenges to the regulatory process and the tantalizing slowness of achieving environmental clearance."

THE COMPANY'S BUSINESS The Company owns and operates a pipeline system for the transportation of crude oil from Edmonton, Alberta, Edson, Alberta and Kamloops, British Columbia to its tank farm and marine terminal in Burnaby, B.C., together with a spur line from Sumas, B.C., to the International Boundary. At the International Boundary the Company's pipeline joins that of its wholly-owned subsidiary, Trans Mountain Oil Pipe Line Corporation, which owns and operates the system in the State of Washington.

The Company also operates a facility on Burrard Inlet for receiving, refrigerating and loading tankers with Canadian propane export. Trans Mountain Enterprises of British Columbia Limited operates a pipeline for the transportation of jet fuels from refineries in the Vancouver area to the Vancouver International Airport.

The investment of the Company and its subsidiaries in plant and equipment totals \$165,895,865 as at December 31, 1978.

Owning no wells itself, no refineries of its own, nor the oil it transports, Trans Mountain is solely a carrier, providing shippers of crude oil with economical trunk line transportation from the areas of production to refining centres and to marine facilities for onward shipment via ocean-borne tanker. The system is of vital importance in the event of hostilities or any other interruption in the movement of crude oil internationally.

Prior to the construction of the Trans Mountain system, British Columbia, then having no indigenous production, imported all of its petroleum requirements, some as crude oil, the balance as refined products. These imports, principally from the United States, constituted a substantial drain on Canada's foreign exchange position.

Easements were obtained for the pipeline right-of-way from nearly 3,000 landowners – private, municipal, provincial and federal. There were approximately 76 major stream and river crossings, 60 highway crossings and 24 railway crossings involved in the initial construction.

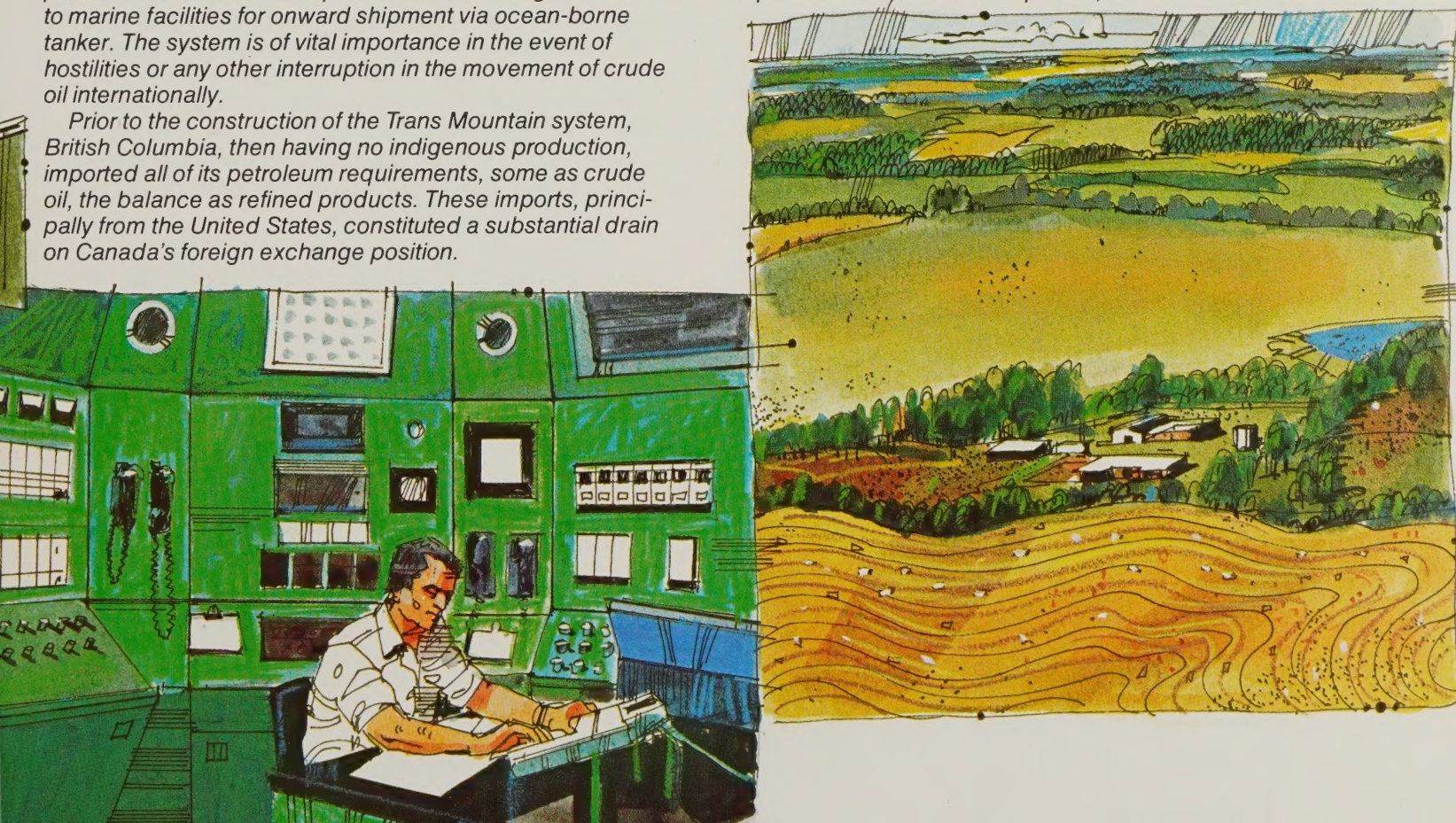
IT COULD HAPPEN AGAIN Exigencies such as happened some five years ago (tanker shipments to the East Coast) can possibly occur again without much warning and the offshore shipments of crude oil using Trans Mountain facilities will be in demand.

It is interesting to note that as a result of such emergencies there have been 223 tankers loaded with a total of over 37 million barrels for offshore shipment since the Company began business.

The marine loading terminal is located at Westridge on Burrard Inlet, near Burnaby Terminal, British Columbia to handle oil deliveries to tankers or barges. Delivery rate is 25,000 barrels per hour.

Facilities are available as well for receiving propane from railway tank cars, refrigerating at rates up to 10,000 B/D and storing at –48° Fahrenheit in two 175,000 barrel insulated tanks. Delivery aboard refrigerated tankers can be accomplished at rates to 10,000 barrels per hour.

The Company's Westridge wharf will accommodate tankers up to 45,000 d.w.t. and minor dredging would make it possible to load vessels up to 65,000 d.w.t.



Report to the Shareholders

DELIVERY VOLUMES

Petroleum deliveries in 1978 averaged 141,228 barrels daily, a decrease of approximately 8,500 barrels from the 1977 daily average. The throughput to Washington State averaged 17,021 barrels per day, down approximately 8,700 barrels, while average deliveries to British Columbia refineries increased only slightly by some 200 barrels per day.

Current deliveries to a Washington State refinery under an exchange agreement, and based on a full year of such continuance, would be forecast at a daily average of 24,200 barrels. With the forecast for B.C. refineries of 128,700 barrels daily the 1979 throughput is expected to average approximately 152,900 barrels per day. In addition, propane export loadings for Japan and pipeline deliveries of jet fuel to Vancouver International Airport are expected to continue in 1979 at about the same levels as in 1978.

Tables of delivery volumes for the past three years are presented in an Oil Movements summary elsewhere in this Annual Report.

METRIC CONVERSION

As of January 1, 1979 the oil industry in Canada has adopted the metric system of measurement using the cubic metre as one standard unit of volume replacing the barrel unit. A cubic metre is equivalent to approximately 6.29 barrels. Accordingly

new tariffs which express the delivery charges in equivalent rates per cubic metre went into effect from January 1, 1979.

By way of example, the tariff rate for transporting oil of the most common density from Edmonton, Alberta to Burnaby, British Columbia, is now published at \$3.555 per cubic metre which is the equivalent of the former tariff rate of 56.5 cents per barrel. Similarly the current forecast of 1979 throughputs of 152,900 barrels per day would now be stated to be 24,300 cubic metres per day.

FINANCIAL RESULTS

Consolidated earnings for 1978 were \$4,930,686 or 65 cents per share after provision for income taxes of \$5,065,000. As forecast in our 1977 Annual Report these are lower earnings than those of 1977 which amounted to 78 cents per share.

Gross income for the year totalling \$30,641,000 (down 1.3% from 1977) included operating revenues of \$28,983,000, investment income of \$1,349,000 and unrealized foreign exchange gains of \$309,000. The tariff increases granted by N.E.B. Order of January 3, 1978, which became effective during the early part of this year, did not fully offset the loss of revenue resulting from the decline in throughput.

Total expenses of \$20,645,000 (up 5.6% from 1977) showed an increase of \$255,000 in taxes, other than income taxes, offset by a decrease of \$237,000 in general operating expenses, but an increase of \$1,083,000 in depreciation provisions as a result of the accelerated amortization ordered by the National Energy Board of certain assets specially classified as not being useful at the foreseeable throughput levels.

The Company paid ordinary dividends in the year totalling \$1.20 per share on Class A shares and equal amounts of tax-deferred dividends on Class B shares but reduced, in the latter case, by 15% when such Class B dividends were paid out of "Tax Paid Undistributed Surplus" as opposed to "1971 Capital Surplus on Hand". The limited amount of 1971 Capital Surplus on Hand available to the Company for payment of Class B dividends was used up for that purpose during the year. The right of shareholders to receive tax-deferred dividends from either source was terminated by legislation effective January 1, 1979.

The 1978 dividends exceeded 1978 earnings by an amount of 55 cents per share, with the excess serving to reduce the Company's retained earnings by approximately 4.2 million dollars.

N.E.B. RATE REGULATION

Trans Mountain's current tariff rates for the transportation of petroleum in Canada were fixed by the NEB in January,



1978, following a public hearing which was held in November and December, 1977. An Appeal was taken by Trans Mountain in respect to certain aspects of the Rate Decision and will be heard by the Federal Court of Appeal in Vancouver on February 19, 1979. As of the date of publication of this report it is not known what relief, if any, may be obtained.

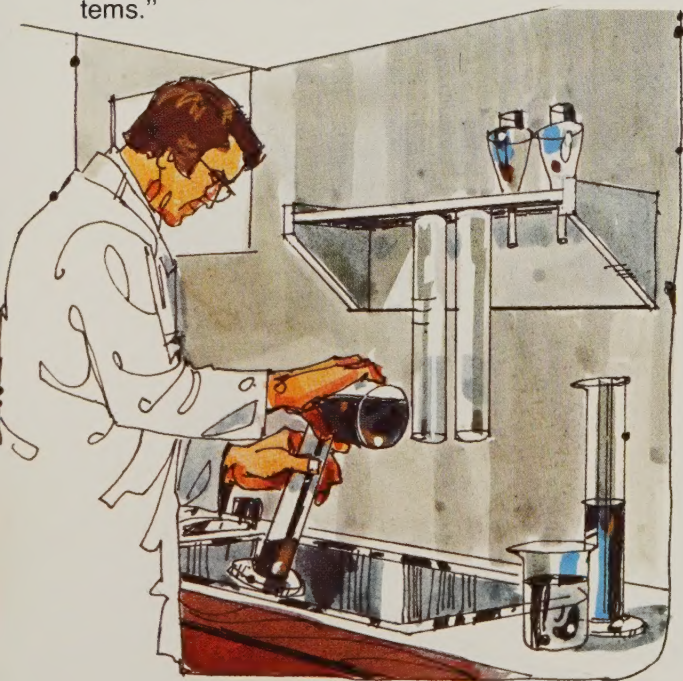
The National Energy Board Act, to which Trans Mountain is subject, requires that tolls be "just and reasonable", however neither the Act nor the Regulations made thereunder specify the manner by which this determination is to be made. As was stated in the 1977 Report to the Shareholders the current tariff rates were determined by the NEB by the use of the rate base/rate of return concept of rate regulation which previously had been used primarily in the regulation of utility systems. This method of regulation was not designed for companies like Trans Mountain which provide transportation only and are not involved in buying or selling the product being transported. Also, the application of this method of regulation to companies which, unlike utilities, are no longer expanding and therefore making relatively minor additional capital investments, has serious implications as to future earnings.

Trans Mountain's concern is particularly with the determination of rate base. The NEB included in Trans Mountain's rate base an allowance for working capital and only those items of the transportation plant which the Board found to be "used and useful" and valued the latter at historic cost less accumulated depreciation. If the NEB continues its present method of regulation Trans Mountain, through its annual depreciation and amortization charges, and in the absence of substantial new capital investment, will suffer a continuing decline in its earnings rate base.

GENERAL

The problems associated with the surplus of crude oil on the west coast of the United States, the shortage of crude oil in the northern tier states and the absence of suitable west-to-east pipeline crude delivery systems remain unresolved. On November 9, 1978, the United States Congress passed legislation cited as the "Public Utility Regulatory Policies Act of 1978". Title V of the Act, "Crude Oil Transportation Systems", declared that need for such a delivery system did exist and went on to state:

"Resolution of the west coast crude oil surplus and the need for crude oil in northern tier States require the assignment and coordination of overall responsibility within the executive branch to permit expedited action on all necessary environmental assessments and decisions on permit applications concerning delivery systems."



The purpose of the Act is to provide expedited procedures for acting on applications for all Federal permits, licenses and approvals required for the construction and operation of any transportation systems approved under this title. A further purpose is to ensure that all Federal decisions on any such transportation systems are coordinated with State decisions to the maximum extent practicable. It is anticipated that the decision of the President may be available by the end of this year.

Should the proposal selected for approval have all or any part of its crude oil transportation system located in Canada, the President of the United States is "authorized and requested" to enter into negotiations with the Government of Canada to determine what measures can be taken to expedite the granting of approvals by the Government of Canada for construction or operation of such systems. Obviously, this Presidential decision has significant environmental and economic implications for Canadians. It is important that Provincial and Federal Governments identify their position and so advise the United States Government at the earliest opportunity.

We believe that the Company's unique position in this matter cannot be ignored. We have an established right-of-way from the Pacific Coast to Edmonton which will accommodate pipeline construction with the least possible environmental impact and at lowest cost. Our operating and maintenance personnel have established an enviable 25-year record of safe and efficient operation. Therefore, the Company filed with the United States Secretary of the Interior an application for approval of its proposal to construct and operate a 30-inch pipeline system from a west coast port to Edmonton, Alberta. 102 miles of this 30-inch pipeline are already in place in the form of the two existing 51-mile loops. In order to comply with certain legal restrictions concerning oil ports on Puget Sound the application assumes an oil receiving location on the Strait of Juan de Fuca west of Port Angeles, Washington. However, we have indicated the economic advantages of a port located closer to the western end of our present system such as Cherry Point, Washington, or Roberts Bank, British Columbia, if approvals for such sites could be obtained.

Approval under this legislation would provide expediting assistance in the permitting process which would be most useful to further development of the project. It must be cautioned, however, that some form of throughput commitment from shippers would be required and further approvals received from regulating bodies on design, construction and financing plans before the project could proceed.

During the year Mr. P. Gordon retired from the Board of Directors. This vacancy was filled with the election of Mr. Donald J. Taylor.

After 45 years of association with the oil industry your Chairman of the Board, Mr. E. Cecil Hurd, retired on January 1. Mr. Hurd served as President of the company for 16 years and continued his guiding role as Chairman of the Board and Chief Executive Officer for a further two years. We are deeply grateful for his many years of fine service to this Company.

Management wishes to express its continued appreciation of the dedication and valued contributions of all its employees.

On behalf of the Board of Directors,

President & C.E.O.

THE T.M. TUBE SERVICE . . . good to the last drop

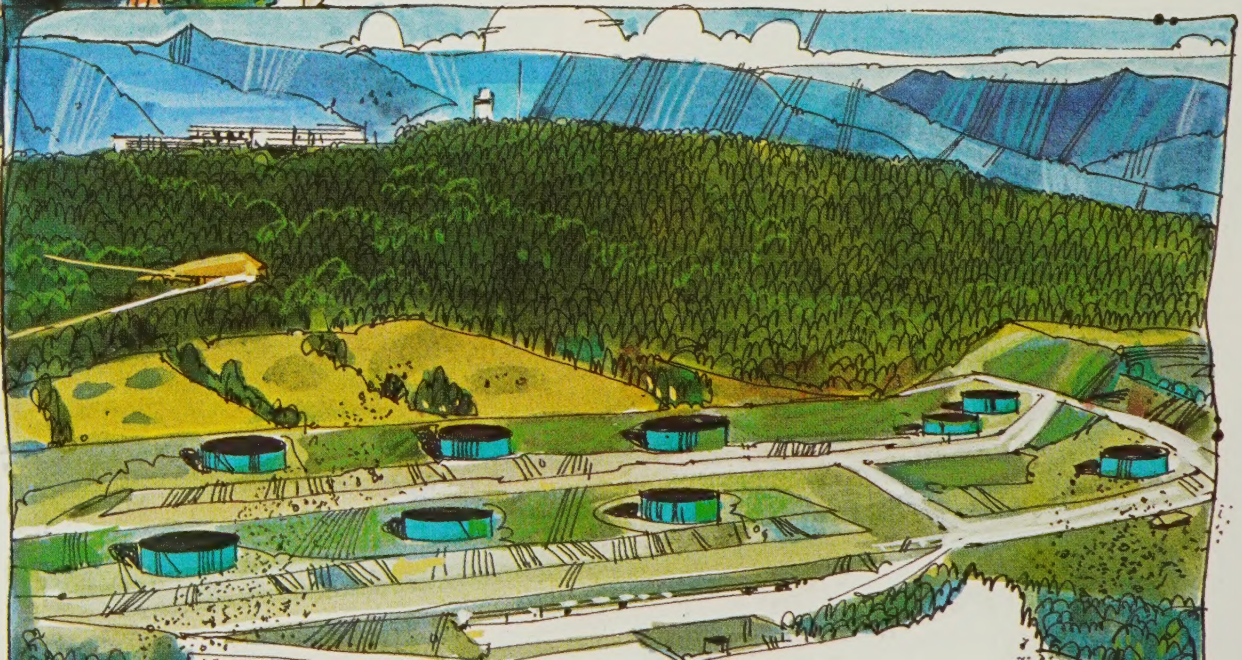
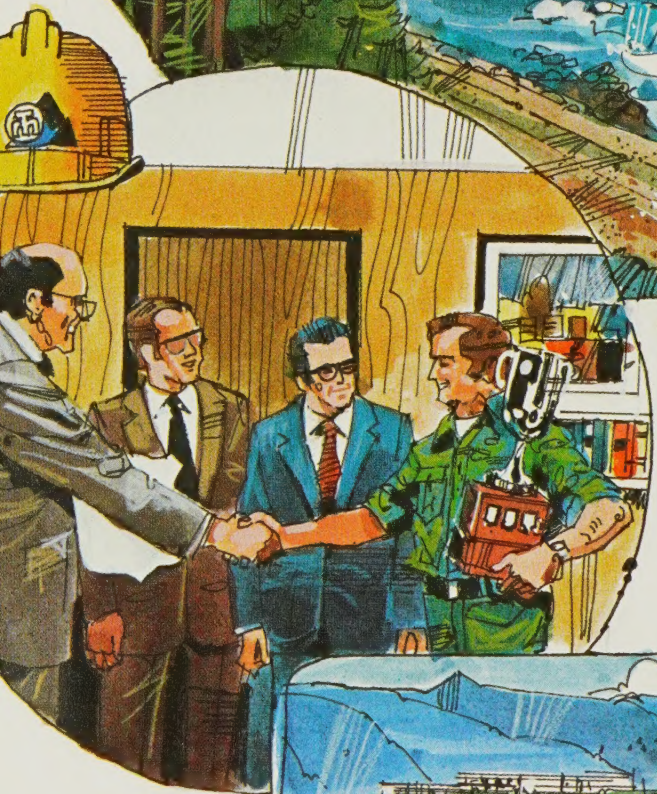
The big noise in the transportation industry is not a pipeline. Although pipelines carry enormous loads over rugged terrain in all kinds of weather, non-stop every hour of the day, every day of the year, they're unseen, unheard and usually unsung. Pipeliners prefer it this way. This out-of-sight, out-of-mind anonymity says it all about pipelines. They're clean, quiet and safe.

Sure, there's something exciting about moving the nation's commodities in ships and barges, railways, airplanes and over highways in trucks and trailers. You can see them, you smell them and you can bet your sweet decibels you hear them. And it's also a safe bet that you will never have a problem trying to pass a pipeline on a crowded highway. They take up no space on the highways or waterways and, of course, collisions are never a problem.

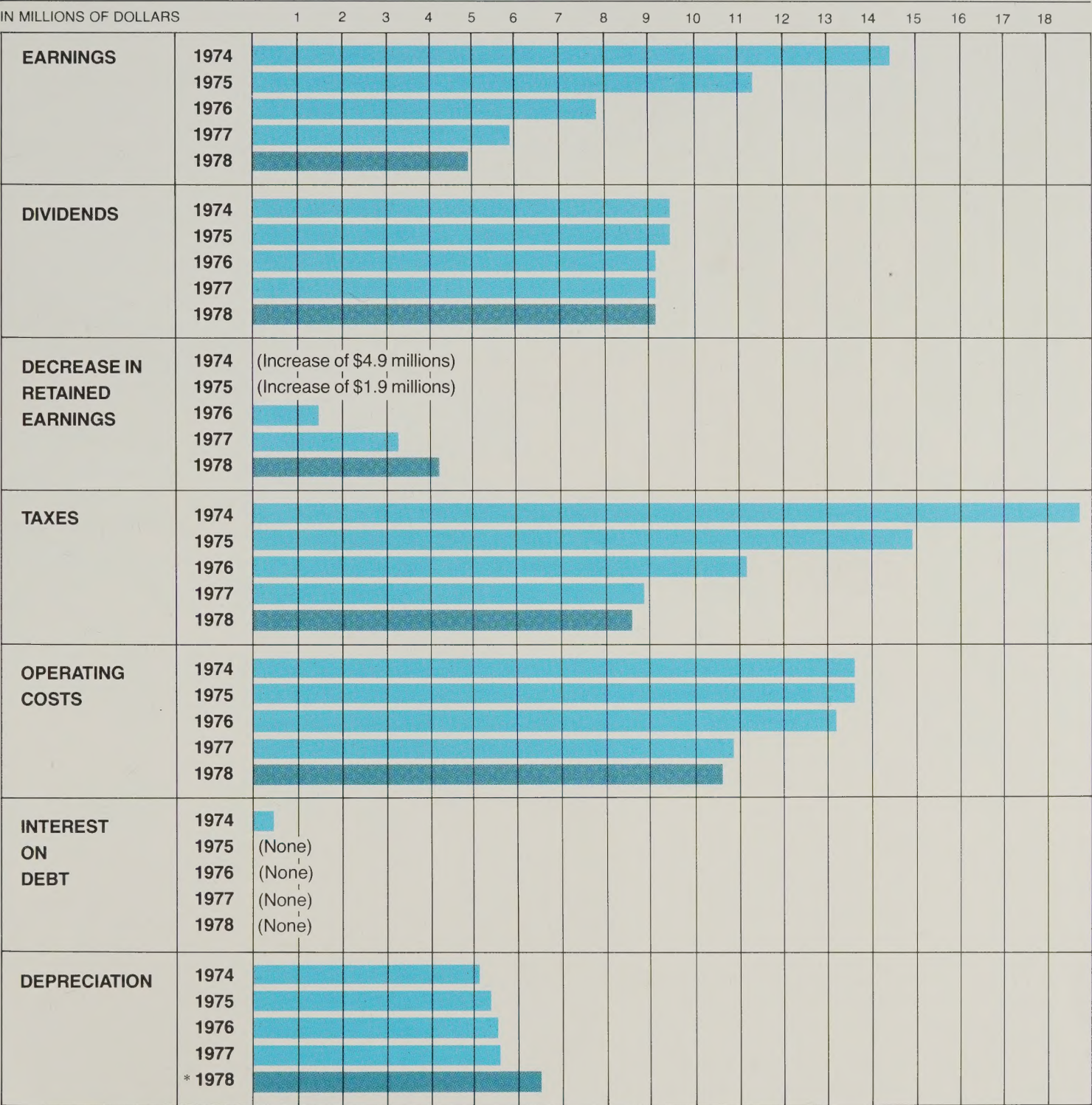
Where safety is concerned, both from the standpoint of personal injuries and damage to property, pipelines have a good record. Statistics show that fluid pipelines are the safest mode of transportation going. They show that on a ton-mile basis, pipelines are 1400 times safer than trucks and 500 times safer than railways. Because they are seldom affected by nature's whims, pipelines enjoy a year-round operating factor of over 98%.

Pipelines operating over long distances at peak capacity provide the most efficient transportation method there is. Everything that moves is payload with no backhaul problem. Loss and damage to product is virtually non-existent with reliable delivery almost guaranteed.

Being buried, pipelines do not prohibit the use of the land through which they are laid. Pumping stations and other pipeline facilities are automated and can be remotely controlled from command stations strategically located along the pipeline. Mobile crews provide the maintenance. To quote Vice President Operations E.J. Lockwood, "Our major responsibility is to deliver all product tendered to us efficiently and safely. Safety embraces all areas of activity involving human life, the environment, and of course private and public properties. It's something we have to work at diligently around the clock, 24 hours a day."



Five Year Comparison

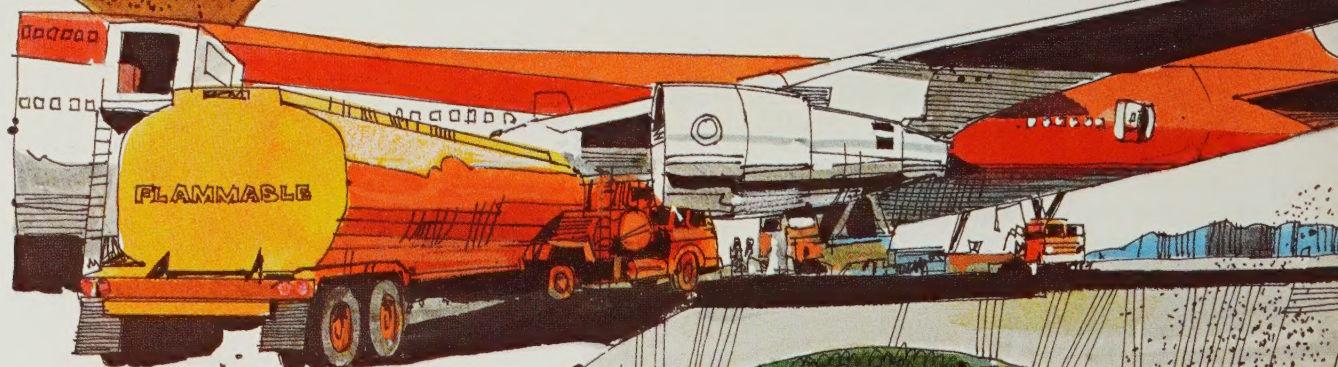


*(Includes accelerated amortization in 1978 on assets specially classified as not fully in use)



MAINTENANCE The entire route of the pipeline is patrolled regularly by helicopter to inspect the right-of-way for damage and encroachments, and to anticipate and prevent mechanical damage to or exposure of the pipe by reason of construction work, logging, flooding, erosion or slides, and to detect possible leaks. While on patrol the helicopter maintains contact with other Company personnel via a radio communications system. In populated areas the route is also inspected frequently on foot or by vehicle.

Pipeline maintenance and repair work requires that skilled personnel and heavy equipment be quickly transported to any location along the pipeline route. This is a major task because along much of the route improved roads either do not exist at all or at best do not provide ready access to the right of way. To overcome that problem the Company constructed and continues to maintain a number of private roads and bridges. Along 500 miles of the line there are improved roads and along about 165 miles the roads are fair. About 55 miles are in sections where roads are impassable in winter. Thirty to fifty feet of snow falls annually on this latter section. Because of these conditions, all maintenance crews are supplied with radio equipped vehicles, sno-cats and muskeg crawlers where conditions warrant.



JET FUEL LINE Trans Mountain Enterprises of British Columbia Limited operates a turbine fuel pipeline from the general Vancouver refinery area to the Vancouver International Airport, a distance of approximately 22 miles. The pipeline is 6 $\frac{1}{8}$ inch O.D. and is capable of pumping to 17,000 B/D. The terminal at the airport consists of four 10,000 barrel tanks and one 5,000 barrel tank. These facilities are tied in to a distribution and aircraft refueling system owned and operated by others.

COMPUTER APPLICATIONS The Company's computer system, consisting of six computers, is used mainly for data gathering, dispatching and scheduling. A computer is located in each of the four master control stations.

Its purpose is to continually monitor important data such as tank levels, meter readings, engine speeds, flows, pressures and valve positions at the master station and its associated remote-controlled stations. The data is then transmitted over the microwave circuit to one of the two Vancouver office computers.

The Vancouver computers store all the data in memory, allowing up-to-the-minute information on pumping conditions, oil inventories and batch positions to be viewed on video screens by the dispatcher. Oil shipment schedules of deliveries and batch pumpings for up to two months can be produced on these computers, permitting quick realignment of schedules when operating conditions or refinery requirements change.



Oil Movements

TOTAL DELIVERIES	1978	1977	1976
Barrels per day (including propane and jet fuel)	156,327	165,331	235,948
DELIVERIES BY DESTINATIONS	1978	1977	1976
	Barrels per day %	Barrels per day %	Barrels per day %
British Columbia refineries	124,207 79.5	124,025 75.0	120,502 51.1
Washington refineries	17,021 10.9	25,712 15.6	99,699 42.2
Westridge tankers (propane)	7,385 4.7	8,298 5.0	8,528 3.6
Vancouver Airport (jet fuel)	7,714 4.9	7,296 4.4	7,219 3.1
	156,327 100.0	165,331 100.0	235,948 100.0
Natural gas liquids, in the form of condensate and butane, represented approximately 6.9% of the total volume transported. In 1977 these accounted for about 6.1% of the volume.			
DELIVERIES BY CALENDAR QUARTERS	Barrels Per Day		
	1978	1977	1976
Petroleum			
First Quarter	134,658	142,087	239,545
Second Quarter	140,771	147,665	231,118
Third Quarter	136,271	148,708	205,944
Fourth Quarter	153,066	160,298	204,526
Propane			
First Quarter	5,998	5,998	8,765
Second Quarter	5,919	8,150	7,753
Third Quarter	8,787	10,172	8,790
Fourth Quarter	8,789	8,820	8,796
Jet Fuel			
First Quarter	6,987	6,373	6,778
Second Quarter	7,785	7,548	7,031
Third Quarter	8,783	8,399	8,560
Fourth Quarter	7,287	6,845	6,500
Total deliveries for the first quarter of 1979 are expected to average 27,100 cubic metres per day (approx. 170,500 bbls.).			
SUMMARY OF OIL RECEIVED	Barrels Per Day		
	1978	1977	1976
Petroleum			
Edmonton	117,150	121,946	188,661
Edson	8,857	10,278	12,051
Kamloops	16,239	17,646	18,866
	142,246	149,870	219,578
Propane			
Westridge	7,598	8,422	8,348
Jet Fuel			
Vancouver refineries	7,713	7,296	7,219
STATISTICS FOR COMPARATIVE PURPOSES	1978	1977	1976
Barrel miles (millions)	33,328	35,332	53,567
Average length of haul (miles)	647	646	665

Consolidated Balance Sheet
Trans Mountain Pipe Line Company Ltd.
and Wholly-owned Subsidiary Companies

ASSETS

December 31

Current assets:

	1978	1977
Cash	\$ 368,988	\$ 304,184
Short-term bank deposits	7,850,000	8,036,810
Commercial notes, at cost	3,995,988	4,273,752
Accounts receivable	3,106,391	3,594,275
Income taxes recoverable	265,860	—
Inventories —		
Supplies	1,704,242	1,703,275
Oil	691,453	563,574
Prepaid expenses	415,739	392,642
	<u>18,398,661</u>	<u>18,868,512</u>

Other assets and deferred charges:

Deposits, mortgages and deferred charges	647,237	622,947
Marketable securities, at cost (market value — \$3,145,265; 1977 — \$3,457,261)	<u>3,055,269</u>	<u>3,120,739</u>
	<u>3,702,506</u>	<u>3,743,686</u>

Fixed assets (Note 2):

Plant, at cost	165,895,865	165,437,639
Less: Accumulated depreciation	<u>116,695,548</u>	<u>110,411,801</u>
	<u>49,200,317</u>	<u>55,025,838</u>
	<u>\$ 71,301,484</u>	<u>\$ 77,638,036</u>

LIABILITIES

December 31

Current liabilities:

Accounts payable and accrued liabilities

\$ 1,204,136

\$ 1,610,074

Income taxes payable

—

28,541

1,204,136

1,638,615

Deferred income taxes

5,382,538

7,118,529

6,586,674

8,757,144

SHAREHOLDERS' EQUITY

Capital stock (Notes 4 and 5)

15,785,767

15,785,767

Retained earnings

48,929,043

53,095,125

64,714,810

68,880,892

Approved by the Board of Directors:

Director



\$ 71,301,484

\$ 77,638,036

Director



Consolidated Statements of Income and Retained Earnings

	Year ended December 31	
	1978	1977
INCOME		
Income:		
Operating revenue	\$28,763,324	\$29,219,562
Income from investments	1,348,574	1,310,421
Sundry income	219,671	201,044
Exchange gain on consolidation of U.S. subsidiary	309,017	310,621
	<u>30,640,586</u>	<u>31,041,648</u>
Charges:		
Operating expenses, other than those stated below	10,615,543	10,852,824
Taxes, other than income taxes	3,483,806	3,228,328
Depreciation and amortization (Note 1(d))	6,545,551	5,463,098
	<u>20,644,900</u>	<u>19,544,250</u>
Income before income taxes	<u>9,995,686</u>	<u>11,497,398</u>
Provision for income taxes:		
Current	6,800,991	6,500,126
Deferred	(1,735,991)	(915,126)
	<u>5,065,000</u>	<u>5,585,000</u>
Net income for the year	<u>\$ 4,930,686</u>	<u>\$ 5,912,398</u>
Net income per share	<u>\$ 0.65</u>	<u>\$ 0.78</u>
 RETAINED EARNINGS		
Retained earnings at beginning of year	\$53,095,125	\$56,279,495
Net income for the year	<u>4,930,686</u>	<u>5,912,398</u>
	58,025,811	62,191,893
Dividends — \$1.20 per share (including tax on undistributed income out of which certain dividends on Class B shares were paid); 1977 — \$1.20 per share (Note 5)	<u>9,096,768</u>	<u>9,096,768</u>
Retained earnings at end of year	<u>\$48,929,043</u>	<u>\$53,095,125</u>

Consolidated Statement of Changes in Financial Position

	Year ended December 31	
	1978	1977
Financial resources were provided by:		
Operations —		
Net income for the year	\$ 4,930,686	\$ 5,912,398
Items not involving an outlay (inflow) of working capital —		
Depreciation and amortization	6,545,551	5,463,098
Deferred income taxes	(1,735,991)	(915,126)
	9,740,246	10,460,370
Sale of fixed assets	90,609	279,833
Decrease in marketable securities	65,470	94,940
Decrease in deposits, mortgages and deferred charges	—	538,944
	<u>9,896,325</u>	<u>11,374,087</u>
Financial resources were used for:		
Additions to fixed assets	810,639	829,729
Increase in deposits, mortgages and deferred charges	24,290	—
Dividends paid	<u>9,096,768</u>	<u>9,096,768</u>
	<u>9,931,697</u>	<u>9,926,497</u>
(Decrease) increase in working capital	(35,372)	1,447,590
Working capital at beginning of year	<u>17,229,897</u>	<u>15,782,307</u>
Working capital at end of year	<u>\$17,194,525</u>	<u>\$17,229,897</u>

Notes to Financial Statements

December 31, 1978

1. ACCOUNTING POLICIES:

(a) Principles of consolidation —

The consolidated financial statements include the accounts of Trans Mountain Pipe Line Company Ltd. and its wholly-owned subsidiaries, Trans Mountain Enterprises of British Columbia Limited, Trans Mountain Housing Limited and Alpac Construction & Surveys Limited in Canada and Trans Mountain Oil Pipe Line Corporation in the United States.

(b) Foreign currency translations —

The accounts of Trans Mountain Oil Pipe Line Corporation, the United States subsidiary company which owns and operates the pipe line in the State of Washington, and United States dollar balances of Trans Mountain Pipe Line Company Ltd. have been expressed in Canadian dollars on the following bases —

Current assets and liabilities, at the rate of exchange on December 31;

Fixed assets and deferred income taxes, at historical rates of exchange;

Accumulated depreciation, on the basis of the equivalent Canadian dollar cost of the related fixed assets;

Income and expenses, except depreciation, at month-end rates of exchange.

(c) Inventories —

Supplies are valued at the lower of cost and replacement cost, cost being determined principally on a moving-average basis. Crude oil inventories are valued at net realizable value.

(d) Depreciation of fixed assets —

With the exception of "assets specially classified" depreciation is provided on the straight-line method on the basis of service life according to class of assets at rates varying from 2¼% to 20%. The average rate on depreciable assets was 3.25% in 1978 and 3.34% in 1977.

Assets specially classified — The National Energy Board, in its decision on the Trans Mountain Pipe Line Company Ltd. rate application heard in December, 1977, segregated certain fixed assets which it determined were not "fully in use in pipeline transportation service" and directed that the undepreciated capital costs thereof be amortized over a period of five years commencing in 1978. The accelerated amortization applicable to those assets specially classified totalled \$2,059,088 in 1978. This represents an increase of approximately \$1,090,000 over the depreciation expense that would have been charged on these assets at the straight-line rates previously in effect.

2. FIXED ASSETS:

Fixed assets comprise —

	1978		1977	
	Cost	Accumulated depreciation and/or amortization	Net book value	Net book value
Canada —				
Crude oil pipeline system in service	\$121,473,104	\$ 89,340,775	\$32,132,329	\$35,765,819
Incomplete construction	132,644	—	132,644	134,159
Assets specially classified	27,777,312	19,539,876	8,237,436	10,346,479
Propane handling and common dock facilities	6,683,467	3,490,148	3,193,319	3,033,959
Jet fuel pipeline system	2,304,283	626,035	1,678,248	1,751,228
U.S.A. —				
Crude oil pipeline system	7,525,055	3,698,714	3,826,341	3,994,194
	<u>\$165,895,865</u>	<u>\$116,695,548</u>	<u>\$49,200,317</u>	<u>\$55,025,838</u>

Crude oil deliveries to refineries in the State of Washington have been reduced to only modest quantities arranged through exchange agreements at the present time. This has resulted in uncertainty as to the ability of Trans Mountain Oil Pipe Line Corporation, the wholly-owned United States sub-

sidary which serves this area, to recover in full the undepreciated cost of its facilities, which at December 31, 1978 aggregated \$3,826,341 (\$3,880,531 U.S.). Recovery of this investment is dependent on the volume of future throughput or alternative use of the facilities.

3. RETIREMENT PLAN:

The Company has a retirement plan covering substantially all employees. An actuarial report on the plan as at December 31, 1977 indicated that additional funding of \$1,563,000 in respect of past service benefits was required. Based on actuarial advice, \$321,000 of this obligation was provided for and

funded in 1978 and the remainder is being funded and charged to operations over the period from 1979 to 1984 inclusive. The increase in unfunded liability for past service (\$1,196,000 at December 31, 1976) was primarily due to plan improvements.

4. INCENTIVE STOCK OPTION PLAN:

The Incentive Stock Option Plan was approved by the shareholders on April 8, 1970. On November 7, 1973 options were granted to key employees to purchase 27,500 shares at a price of \$13.8375 per share, being 90% of the closing market

quotation on that date. As at December 31, 1978 none of the aforementioned options have been exercised. The Incentive Stock Option Plan and any options then outstanding will expire on February 10, 1980.

5. CAPITAL STOCK:

The Company's authorized share capital is comprised of 12,500,000 Class A shares and 12,500,000 Class B shares, all without nominal or par value.

The Class A and Class B shares are interconvertible at any time on a share-for-share basis and rank equally in all respects, except that, in the case of the Class B shares, tax-deferred dividends were paid out of tax-paid undistributed surplus and 1971 capital surplus on hand, as defined in the Income Tax Act, in amounts which, when added to the amount of any related income tax, equalled the cash dividend on the Class A shares. For Canadian income tax purposes, tax-

deferred dividends were not taxable when received by a shareholder, but reduced the adjusted cost base of the shares for determination of capital gains or losses.

As a result of changes in the Income Tax Act which became effective January 1, 1979, it is no longer possible to pay tax-deferred dividends.

There was no change during the year in the number of shares issued and outstanding, and of the 7,580,640 shares outstanding at December 31, 1978, 7,365,686 are designated as Class A shares and 214,954 as Class B shares.

6. REMUNERATION OF DIRECTORS AND OFFICERS:

The remuneration received by directors and officers of the Company (of which \$4,700 U.S. was received by directors from a subsidiary company) is as follows —

Directors		Officers		Officers who are also directors
Number	Amount	Number	Amount	
11	\$26,600	6	\$362,077	2

Auditors' Report

To the Shareholders of Trans Mountain Pipe Line Company Ltd.:

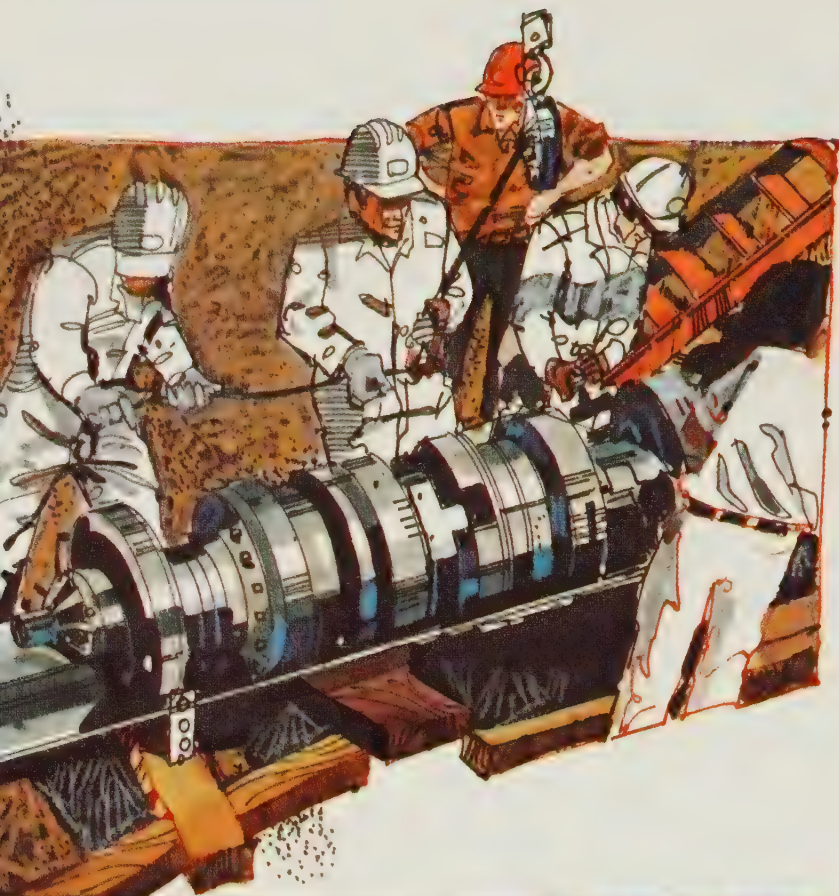
We have examined the consolidated balance sheet of Trans Mountain Pipe Line Company Ltd. and wholly-owned subsidiary companies as at December 31, 1978 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the Company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

February 9, 1979
Vancouver, B.C.

PRICE WATERHOUSE & CO.
Chartered Accountants

Ten Year Summary



FINANCIAL (in thousands of dollars)

Revenue	
Expense (including depreciation)	
Income taxes	
Net earnings	
Net earnings per share	
Dividends distributed	
Percentage of net earnings paid	
Dividends paid per share	
Working capital	
Capital additions to pipe line system	
Investment in plant (original cost)	
Investment in plant (less accumulated depreciation)	
Long term debt — (after deducting payments due within one year)	
Number of shares issued	
Number of shareholders	
Canadian	
U.S.A.	
U.K.	
Other	

OIL MOVEMENT STATISTICS (in thousands of barrels)

Receipts:

Petroleum	
Alberta	
British Columbia	
Total	
Jet Fuel	
Propane	
Alberta	
British Columbia	
Total	

Deliveries:

Petroleum	
British Columbia	
Washington State	
Tankers	
Total	
Jet Fuel	
Propane	
Tankers	

THE WORK FORCE

The successful achievement of 25 years of operations was not the only milestone for the Company in 1978. Fifty employees were given well-deserved recognition for having served the Company faithfully for a quarter century. As a point of interest, this group represented over 25 per cent of the total staff.

Also during the year fourteen of the staff retired and began their new life as Trans Mountain annuitants.



Three employees and their wives cut their retirement cake in Kamloops on June 22nd. From the left, Station Supervisor Ed and Alice Loewen, Jean and Sr. Mechanical Maintenance Supervisor Jim Oliver, Evelyn and Corrosion Technician Lloyd Gale.



Joyce and PLM Supervisor Jim Boydell receiving recognition from President K.L. Hall for their 25 years with the Company.

THE START OF A NEW CAREER

Chairman of the Board E. Cecil Hurd began a new career of retirement at the end of 1978 after completing over 25 years with the Company. A veteran of 45 years in the petroleum industry, Mr. Hurd started with Trans Mountain in 1953 as Manager of Oil Movements. In succession he was appointed Administration Manager in 1954, Vice President in 1958, President and Director in 1960 and Chairman of the Board in 1975.

A mark of E.C. Hurd's success as the Company's top executive was the respect and loyalty afforded him by the staff and Board of Directors throughout the years.

A long and fruitful period of retirement is wished for Cec and his wife, Helen.

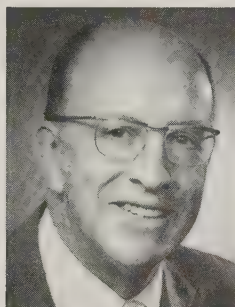


Twenty Eighth Annual Report 1978

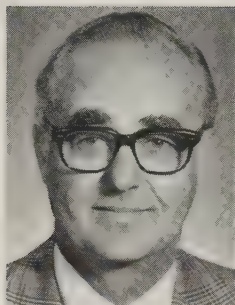
Trans Mountain Pipe Line Company Ltd.

ANNUAL AND SPECIAL GENERAL MEETING OF SHAREHOLDERS

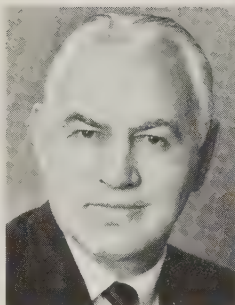
Thursday, April 19, 1979
Arbutus Room, The Four Seasons Hotel
791 West Georgia St., Vancouver, British Columbia



E. C. HURD
Chairman of the Board
(Retired January 1, 1979)



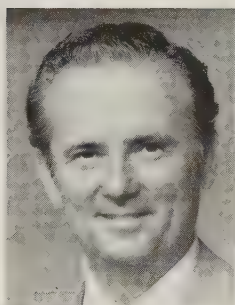
K. L. HALL
President & C.E.O.



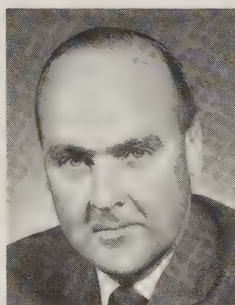
L. P. BLASER



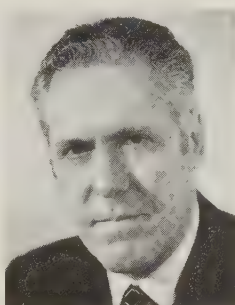
R. L. BRIDGES



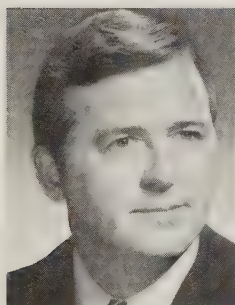
L. M. COOK



J. W. FLANAGAN



J. H. HAMLIN



C. B. MACDONALD



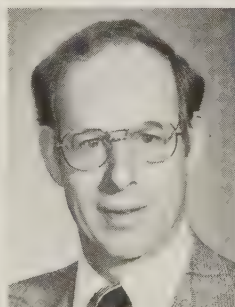
A. M. MCGAVIN



D. J. TAYLOR



A. A. GOULSON
Vice President-Treasurer



E. J. LOCKWOOD
Vice President-Operations



G. A. IRVING
Secretary

BOARD OF DIRECTORS

L. P. BLASER
Executive Vice President and Director
Gulf Oil Canada Limited

R. L. BRIDGES
Partner
Thelen, Marrin, Johnson & Bridges

L. M. COOK
Senior Vice President
Atlantic Richfield Company

J. W. FLANAGAN
Senior Vice President and Director
Imperial Oil Limited

***P. GORDON**
Senior Vice President and Director
Shell Canada Limited
(Retired February 10, 1978)

K. L. HALL
President & C.E.O.
Trans Mountain Pipe Line Company Ltd.

J. H. HAMLIN
Senior Vice President and Director
Imperial Oil Limited

E. C. HURD
Chairman of the Board
Trans Mountain Pipe Line Company Ltd.
(Retired January 1, 1979)

***C. B. MACDONALD**
President and Managing Director
Chevron Canada Limited

***A. M. MCGAVIN**
Chairman of the Board
McGavin ToastMaster Limited

***D. J. TAYLOR**
Vice President, Oil
Shell Canada Limited
(Elected February 10, 1978)

OFFICERS

E. C. HURD, Chairman of the Board
K. L. HALL, President & C.E.O.

A. A. GOULSON, Vice President-Treasurer

E. J. LOCKWOOD, Vice President-Operations

G. A. IRVING, Secretary

G. F. REEKS, Comptroller and Assistant Treasurer

F. W. ADAM, Assistant Secretary

J. G. TORRANCE, Q.C., Assistant Secretary

HEAD OFFICE

400 East Broadway, Vancouver, British Columbia
Canada V5T 1X2

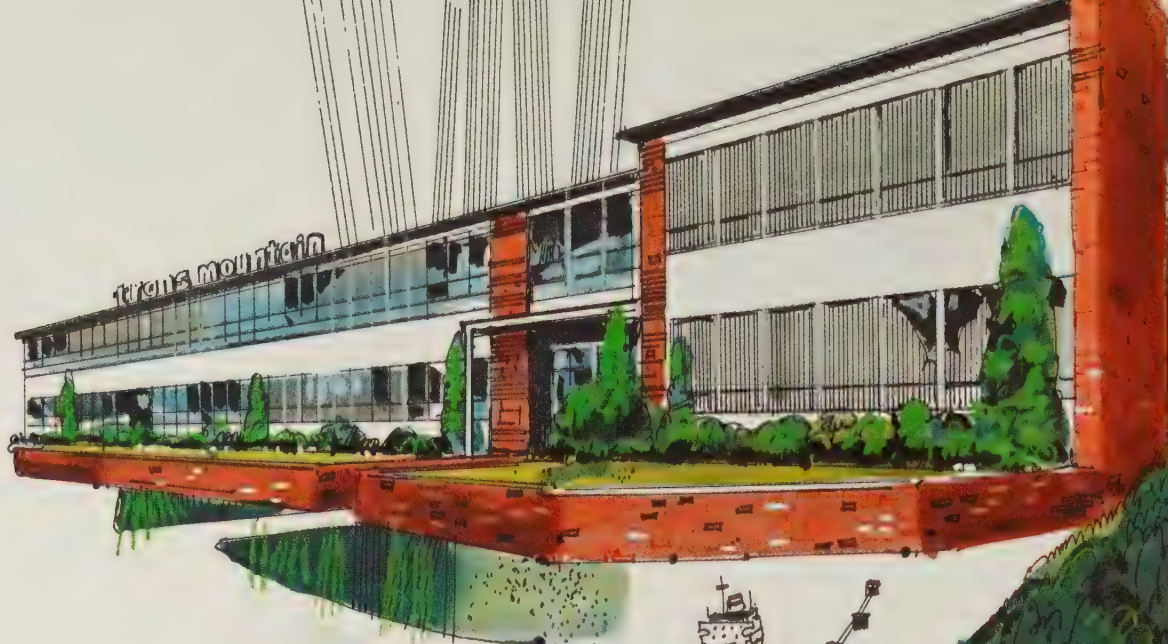
TRANSFER AGENT AND REGISTRAR

National Trust Company, Limited
Vancouver, Calgary, Edmonton, Winnipeg,
Toronto and Montreal

AUDITORS

Price Waterhouse & Co.
Vancouver, British Columbia, Canada

**Member of Audit Committee*

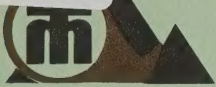


PERSONNEL It is the Company's policy to employ only Canadian citizens or landed immigrants with the exception of those employed in the State of Washington by Trans Mountain Oil Pipe Line Corporation all of whom are American citizens. When the Trans Mountain pipeline was constructed the pipeline industry was comparatively new in Canada. Key operating personnel were drawn from other branches of the oil industry, and qualified personnel employed from other walks of life were given specialized training at existing pipelines in Canada and the United States, together with instruction courses at the manufacturing plants of the suppliers of major equipment.

To keep pace with technical changes and advances in methods and equipment this training program has been continued and enlarged in scope. Effective use is made of a variety of training courses offered in Canada and the United States. These include apprenticeship programs at vocational schools in British Columbia and Alberta as well as courses offered by suppliers of specialized equipment. Use is also made of management and technical training at the university level.



AR09



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Trans Mountain
Pipe Line Company Ltd.

6

MONTH
INTERIM REPORT

FOR THE PERIOD ENDED JUNE 30, 1978

TO THE SHAREHOLDERS

TRANS MOUNTAIN PIPE LINE COMPANY LTD.

Estimated consolidated net profits for the six months ended June 30, 1978 totalled \$2,387,000 or 31.5 cents per share outstanding. Corresponding results for the first half of 1977 were \$2,723,000 or 35.9 cents per share. As predicted in our 1977 annual report the increase in tariff rates allowed by the National Energy Board has not, in the first half of 1978, generated sufficient additional revenue to offset the combined effect of lower throughputs and accelerated amortization of certain asset book values as directed.

Dividends totalling 60 cents per share paid in the six months ended June 30, 1978 exceeded the estimated current earnings for the period by 28.5 cents per share.

Average daily deliveries are shown hereunder:

	1978		1977	
First Half Year:	Barrels	%	Barrels	%
Petroleum:				
B.C. Refineries	121,856	88.5	120,712	83.3
U.S. Refineries	15,875	11.5	24,179	16.7
	<u>137,731</u>	<u>100.0</u>	<u>144,891</u>	<u>100.0</u>
Jet Fuel	7,388		6,964	
Propane to Japan	5,958		7,080	
	<u>151,077</u>		<u>158,935</u>	
First Quarter	147,643		154,458	
Second Quarter . .	154,474		163,363	
Third Quarter . . .	†155,000		167,280	
Fourth Quarter . .	†152,000		175,963	

†estimated

The Company's average crude petroleum deliveries of 137.7 thousand barrels per day for the first six months of the year was lower than the 1978 average of 143.6 thousand barrels per day forecast by the National Energy Board in setting the tariff rates currently in force. Although this shortfall is adversely affecting the Company's 1978 earnings it does not constitute a ground upon which the Company applied for and was granted leave to appeal the N.E.B. decision in its rate application.

It is hoped that the Company's appeal will be heard in October of this year but we have not been advised as yet that a date has been set.

Vancouver, B.C.
August 16, 1978

E.C. Hurd, Chairman
K.L. Hall, President

CONSOLIDATED FINANCIAL SUMMARY

	First Half Year	
	1978	1977
Average daily oil deliveries in barrels*	<u>151,077</u>	<u>158,935</u>

(in thousands of dollars)

INCOME:

Operating revenue	\$13,798	\$13,906
Income from investments	<u>644</u>	<u>663</u>
	<u>\$14,442</u>	<u>\$14,569</u>

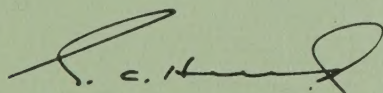
CHARGES:

Operating expenses	\$ 4,845	\$ 4,977
Taxes other than income taxes	1,773	1,638
Provision for depreciation	<u>3,257</u>	<u>2,727</u>
	<u>\$ 9,875</u>	<u>\$ 9,342</u>
Profit before income taxes ...	\$ 4,567	\$ 5,227
Provision for income taxes:		
Current	3,027	2,945
Deferred	<u>(847)</u>	<u>(441)</u>
	<u>2,180</u>	<u>2,504</u>
Earnings for the period	<u>\$ 2,387</u>	<u>\$ 2,723</u>
Profit per share	<u>31.5¢</u>	<u>35.9¢</u>

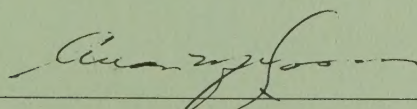
*Includes propane deliveries out of Westridge Terminal and jet fuel to Vancouver International Airport.

The above amounts are subject to independent audit and adjustment of certain items ordinarily calculated on an annual basis.

APPROVED BY THE BOARD OF DIRECTORS:



, Director



, Director

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for the six months ended June 30, 1978
(with comparable amounts for the half year
ended June 30, 1977)

	1978	1977
SOURCE:	(in thousands of dollars)	
Earnings for the period	\$ 2,387	\$ 2,723
Add:		
Non-cash charges to earnings		
Depreciation	3,257	2,727
	\$ 5,644	\$ 5,450
Redemption of marketable securities	42	76
Proceeds from sale of fixed assets	54	188
	\$ 5,740	\$ 5,714
DISPOSITION:		
Increase in other assets and deferred charges	\$ 107	\$ 27
Additions to fixed assets ...	399	445
Previously deferred income taxes now current	847	441
Dividends paid	4,548	4,548
	\$ 5,901	\$ 5,461
Increase (decrease) in working capital	\$ (161)	\$ 253
Working capital, at beginning of period	17,230	15,782
Working capital, at end of period	\$17,069	\$16,035

The above amounts are subject to independent audit and
adjustment of certain items ordinarily calculated on an
annual basis.

APPROVED BY THE BOARD OF DIRECTORS:

, Director

, Director